

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

as of

DECEMBER 31, 2001

of

ALFA LIFE INSURANCE
CORPORATION

MONTGOMERY, ALABAMA

PARTICIPATION:

Alabama

EXAMINATION AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF MONTGOMERY**

Rex H. Newborn being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Alfa Life Insurance Corporation for the period of January 1, 1998 through December 31, 2001;

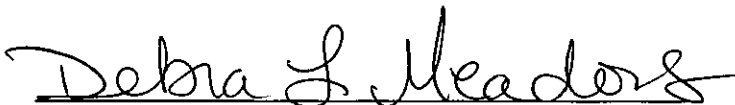
That the following 27 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Rex H. Newborn
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 27th day of February 2004.


(Signature of Notary Public)

Debra L. Meadors, Notary Public
Printed name

in and for the State of Alabama

My commission expires

7/22/2006

Montgomery, Alabama
February 20, 2004

Honorable Jose Montemayor
Chairman, Examination Oversight Task Force
Texas Department of Insurance
P.O. Box 149104
Austin, TX 78714-9104

Honorable Alfred W. Gross
Secretary Southeastern Zone
Virginia Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Bell:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

Alfa Life Insurance Corporation
Montgomery, Alabama

as of December 31, 2001, at its home office located at 2108 East South Boulevard, Montgomery, Alabama 36116. The report of examination is submitted herewith.

Where the term, Company, appears herein without qualification, it is synonymous with Alfa Life Insurance Corporation.

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SCOPE OF EXAMINATION

The examination reported herein covers the period from December 31, 1997 through December 31, 2001, and has been conducted by examiners representing the Alabama Department of Insurance. The Company's insurance affiliates (six property and casualty companies) have been examined concurrently with the examination of the Company. Events subsequent to December 31, 2001, have been reviewed as required and are reported herein as deemed appropriate.

The Company has been examined in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the NAIC; and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, the President and Treasurer of the Company executed a letter of representation certifying that the Company had valid title to all its reported assets, and that it did not have unreported liabilities as of December 31, 2001.

Within this report, discussion of the Company's accounts has been confined to those items for which a material change in the financial statements has been noted or for which comments and/or recommendations have been made.

ORGANIZATION AND HISTORY

The Company Charter is the product of a merger of Federated Guaranty Life Insurance Company (FGL) into Cotton States Life Insurance Company (CSL) effective December 31, 1973. FGL was incorporated on October 22, 1971 in Montgomery County, Alabama. CSL was incorporated on December 31, 1954 in Dallas County, Alabama. The name, Federated Guaranty Life Insurance Company was retained by the surviving entity. At the time of the merger, Alabama Farm Bureau Mutual Casualty Insurance Company (currently; Alfa Mutual Insurance Company (AMI)) owned 57.8% of FGL.

On January 4, 1983, the holding company now named Alfa Corporation was incorporated in Delaware under the name Federated Guaranty Corporation. At that time the stock of the Company, and the stock of its property and casualty subsidiary,

Alfa Insurance Corporation (formerly, Federated Guaranty Insurance Company), was contributed to Alfa Corporation.

Effective May 1, 1987, the Alabama Farm Bureau Federation withdrew from the national Farm Bureau Federation, of which it was a franchise member, and changed its name to Alabama Farmers Federation. The names of all the insurance companies within the group also changed. The name of the Company was changed to Alfa Life Insurance Corporation.

At December 31, 2001, the Company had paid up capital of \$4,211,498, represented by 4,211,498 shares of common stock of a par value of \$1.00 per share. Paid in surplus consisted of \$13,131,498. There were no changes to the Company's capital structure or significant amendments to its Articles of Incorporation or By-laws during the period of examination reported herein.

GROWTH OF THE COMPANY

The following schedule presents financial data, which reflect the growth of the Company for the years indicated:

<u>Year</u>	<u>Premium Income</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
1997	73,339,020	497,165,620	370,449,070	126,716,550
1998	79,292,741	552,266,776	422,902,319	129,364,457
1999	82,516,136	610,462,714	482,749,334	127,713,380
2000	88,062,196	684,106,358	543,619,490	140,486,868
2001	90,404,721	723,464,769	577,144,944	146,319,825

Data for the years 1997 and 2001 are per examination. Data for the remaining years, were obtained from the Company's Annual Statements.

TERRITORY

As of December 31, 2001, the Company was licensed to transact insurance business in the following jurisdictions:

Alabama
Georgia
Missouri
Tennessee

Arkansas
Louisiana
North Carolina
Virginia

Florida
Mississippi
South Carolina

The Certificates of Authority from the respective jurisdictions were inspected and found to be in effect at December 31, 2001.

STATUTORY DEPOSITS

In compliance with statutory requirements for transacting insurance business in the respective jurisdictions, the Company had the following securities on deposit at December 31, 2001:

Deposits Held for the Benefit of Policyholders, Claimants, and Creditors of the Company

	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<u>Alabama</u>			
Compass Bank, U.S. Treasury Note, 7.625%, due 2/15/07	\$250,000	\$249,219	\$251,563
<u>Arkansas</u>			
Bank of America, U.S. Treasury Note, 8.125%, due 8/15/19	100,000	95,044	126,250
<u>Georgia</u>			
Wachovia Bank, U.S. Treasury Note, 7.625%, due 2/15/07	35,000	34,943	35,219
<u>North Carolina</u>			
Wachovia Bank, U.S. Treasury Note, 7.625%, due 2/15/07	100,000	99,837	100,625
<u>South Carolina</u>			
Bank of America, U.S. Treasury Note, 7.625%, due 2/15/07	<u>135,000</u>	<u>134,779</u>	<u>135,844</u>
Totals	<u>\$620,000</u>	<u>\$613,822</u>	<u>\$649,501</u>

All statutory deposits were confirmed as of December 31, 2001, by written correspondence with the respective custodians.

HOLDING COMPANY AND AFFILIATES

Holding Company Registration and Reporting

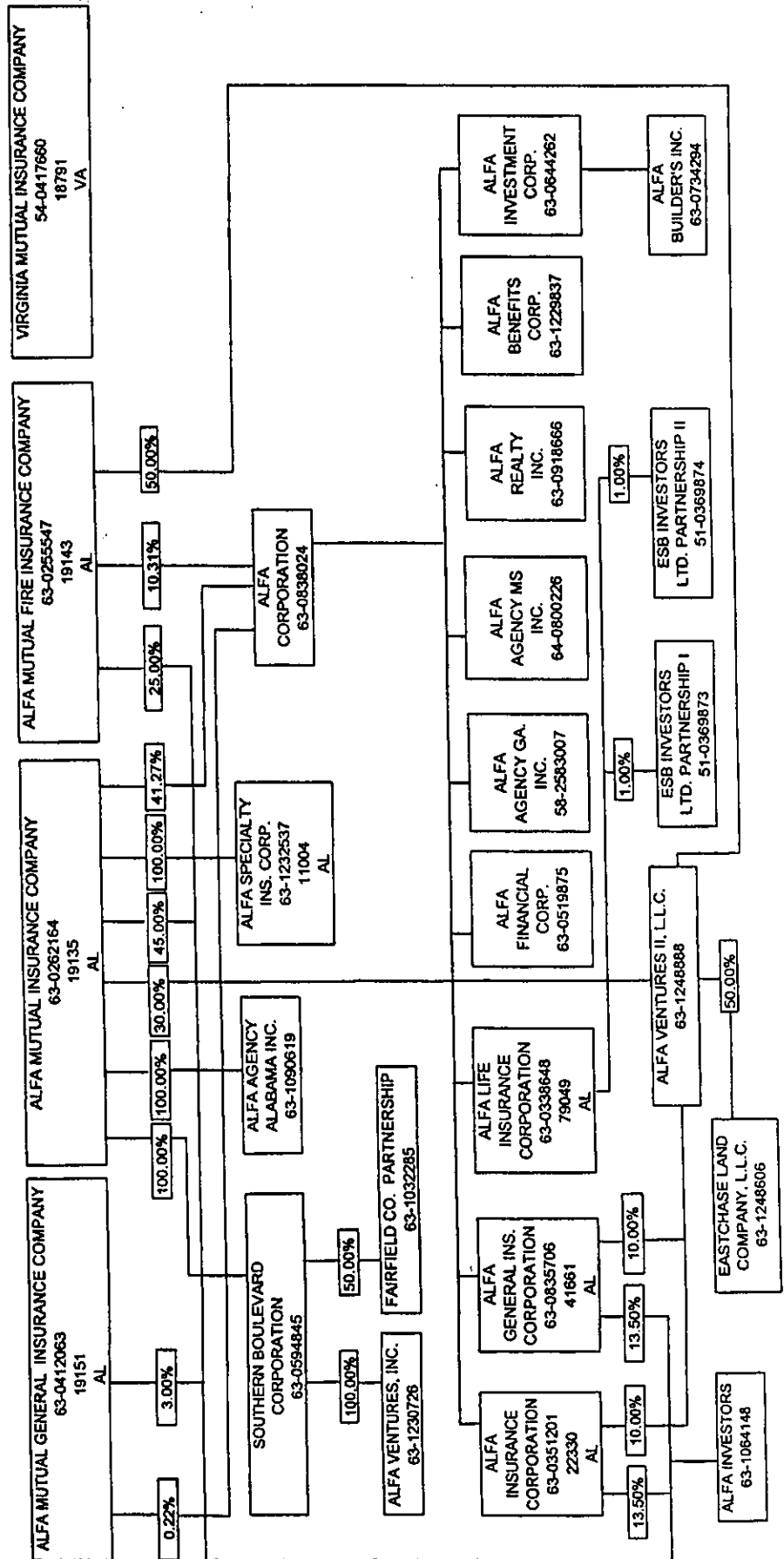
The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in Section 27-29-1, *Code of Alabama*, 1975. The Company is responsible for holding company registration and periodic informational filings with the Alabama Department of Insurance, in accordance with Section 27-29-4, *Code of Alabama*, 1975, and Alabama Department of Insurance *Regulation Number 55*.

Holding Company filings and amendments to registration statements made on behalf of the Company and its affiliates, for the years under examination, were reviewed. Said filings and amendments were found to be substantially complete and to reflect the required disclosures.

Organization Chart

The chart on the following page depicts the insurance holding company system with which the Company was affiliated as of December 31, 2001.

ORGANIZATIONAL CHART



Agreements with Affiliates

Management and Operating Agreement:

The following insurers were under the control of Alfa Mutual Insurance Company (AMI) and were parties to a Management and Operating Agreement with AMI: the Company; Alfa Mutual Fire Insurance Company; Alfa Mutual General Insurance Company; Alfa Insurance Corporation; Alfa General Insurance Corporation; and, Alfa Specialty Insurance Corporation. These companies will be referred to, collectively, as the "affiliates" in the remainder of the discussion of this topic.

This agreement has been in effect since January 1, 1960, with periodic amendments to modify the terms and to add companies as they became affiliated. Effective January 1, 1990, it was revised to continue on an annual basis through December 31, 2001. After that date, the agreement has been extended for additional periods of one year each.

Pertinent terms of the agreement include the following:

- 1) The affiliates designate AMI to take charge of, conduct, operate and manage the business of the affiliates, respective to each affiliate's charter and Board of Directors, and in a manner conducive to the profitable operation of each respective affiliate. AMI will provide all home office operating services to the affiliates, including accounting, disbursement and payroll services and will serve as a disbursing agent for the payment of all employees and agents of the affiliates.
- 2) AMI agrees to employ, in its own name, all personnel necessary to perform the aforesaid, and reserves all rights and responsibilities of the employer of said personnel. All agents of the affiliates shall be appointed in the name of the respective affiliates and shall work on behalf of the respective affiliates. All personnel and agents of any affiliate employed outside Alabama are the sole responsibility of that affiliate. AMI also agrees to indemnify and hold the affiliates harmless against any loss on account of the dishonesty or infidelity of any AMI employees.
- 3) AMI agrees that the business of each party to the agreement shall be conducted in the name of the respective party and that the records of each party shall be kept separately. AMI Company agrees to provide all required records, record-keeping services and data processing necessary to the efficient and economical operation of such business.
- 4) The affiliates agree to reimburse AMI for expenses and additional charges in

accordance with schedules which are attached to the agreement. These schedules are subject to periodic amendment. Expense allocations and other charges are determined by time, usage, and related special expense allocation studies conducted by AMI. Expenses entirely attributable to the affiliates such as printing and supplies are purchased and paid for directly by the respective affiliate.

Numerous expense categories are prorated between affiliates on Schedule A, an attachment to the agreement. Certain other expenses are allocated directly to the affiliates that benefit from expenditures. Agent's commissions are allocated 100% to the affiliate writing the business. Fixed monthly charges are paid by the affiliate for certain other expenses.

Tax Allocation Agreement:

The Company and certain of its affiliates filed consolidated federal income tax returns during the examination period. The terms of the agreement for allocation of taxes are related in a resolution by the board of directors of the companies that are subject to the agreement. However, no formalized tax allocation agreement among the affiliates has been reduced to writing. Furthermore, the board resolutions do not discuss the settlement of balances between companies. SSAP No. 10, Section 12 c. requires a written income tax allocation agreement, which specifies the terms for settlement of intercompany balances, for recognition of consolidated income tax filings among affiliates.

Dividends to Stockholders

During the period under examination, the Company paid the following cash dividends to its sole stockholder, Alfa Corporation.

<u>Year</u>	<u>Dividend</u>
1997	\$6,317,247
1998	\$6,868,953
1999	\$3,605,042
2000	\$ -0-
2001	\$3,727,175

Dividends paid appeared to be in accordance with Alabama statutes and regulations.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws and amendments thereto were inspected and found to provide for operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholders, board of directors and committees of the Company, from December 31, 1997 through the most recent meetings recorded at the time of examination, were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

MANAGEMENT AND CONTROL

Stockholders

The sole stockholder of the Company is Alfa Corporation, a Delaware corporation. Controlling interest in Alfa Corporation (51.8% at December 31, 2001) was held by the three Alfa mutual insurance companies: Alfa Mutual Insurance Company 41.27%; Alfa Fire Insurance Company 10.31%; and Alfa Mutual General Insurance Company .22%. The remaining 48.2% of the stock was publicly held.

Board of Directors

The Company's By-Laws provide that its property and business shall be managed by a board of directors consisting of twelve persons. Directors are elected at the annual meeting of the stockholder and serve until their successors are elected and qualified.

The following directors were elected by the stockholder and were serving at December 31, 2001:

Director/Residence

Jerry Allen Newby
Athens, Alabama

Boyd Eugene Christenberry
Montgomery, Alabama

Principal Occupation

Chairman of the Board, CEO,
and President, Company

Retired

(continued next page)

Director/Residence
Stephen Leonard Dunn
Evergreen, Alabama

Principal Occupation
Treasurer, Company

Clyde Lee Ellis, III
Montgomery, Alabama

Executive Vice President, COO, Alfa Mutual
Insurance Company

James Irving Harrison, Jr.
Tuscaloosa, Alabama

Business Owner

Hal Franklin Lee
Hartselle, Alabama

Vice President, Alfa Insurance Corporation

Benjamin Phil Richardson
Montgomery, Alabama

Retired, Company Executive Vice President

John Russell Thomas
Alexander City, Alabama

President, Aliant National Corporation

James Albert Tolar, Jr.
Marion, Alabama

Vice President (Southwest Area), Alfa Mutual
Insurance Company

Russell Riley Wiggins
Andalusia, Alabama

Vice President (Southeast Area), Alfa Mutual
Insurance Company

Curtis Dean Wysner
Woodland, Alabama

Vice President (Central Area), Alfa Mutual
Insurance Company

Officers

The Company's By-Laws provide that its principal officers shall be a chairman of the board, president, executive vice president, one or more vice presidents, secretary, treasurer, and other officers as the board of directors may determine, and for such terms, authority and duties as may be determined by appointment. Any two or more offices may be held by the same person, except the offices of president and secretary.

The following officers were elected by the Board of Directors and were serving at December 31, 2001:

(continued next page)

Jerry Allen Newby
Clyde Lee Ellis III
Herman Alan Scott

President and CEO
Vice President and Treasurer
Secretary

The following officers were appointed by the Board of Directors and were serving at December 31, 2001:

Clyde Lee Ellis III	Executive Vice President, Operations
Charles Wayne Hawkins	Executive Vice President, Marketing
Stephen Goddard Rutledge	Senior Vice President, CFO & CIO
Herman Alan Scott	Senior Vice President and General Counsel
Jimmy Rogers Azar	Senior Vice President, IA and Planning
John Thomas Jung	Senior Vice President, CIO
Thomas Earle Bryant	Senior Vice President, Human Resources
William Bradley Harper, Jr.	Senior Vice President, Life & Loan Operations
Jerry Charles Ralph	Senior Vice President, Marketing, North Alabama
William Merit Hardy, Jr.	Senior Vice President, Marketing, South Alabama
Carol Lynn Golsan	Vice President, Marketing Services
Alfred Edwin Schellhorn	Vice President, Mergers & Acquisitions
Darrell Lee McNeal	Vice President, Georgia Marketing
Robert Wyatt Pace	Vice President, Mississippi Marketing
Sandra Barnette Godwin	Vice President, Life Claims & Processing
Kerry Horner Lashlee	Vice President, Life Underwriting & Policyholder Service
John Daryl Holley	Vice President and Assistant CFO
David Ray Proctor	Vice President, Taxes
Kenneth Leonard Nelson	Vice President, Life Actuary
Domnic Charles Labriola	Vice President, Advanced Sales
Joanne Wilson	Vice President, Professional Development
Christine Gnann Cantrell	Vice President, Marketing Communications
Kevin Lee Ketzler	Vice President, Real Estate
Connie Leah Whitecotton	Assistant Vice President, Internal Audit
Patti Jo Everage	Assistant Vice President, Finance
Michael Edward Epton	Assistant Vice President, Finance
Jacob Daniel Black	Assistant Vice President, Finance

Committees

The following committees were appointed by the board of directors and were serving at December 31, 2001:

(continued next page)

Executive Committee

Jerry Allen Newby
Stephen Leonard Dunn
Hal Franklin Lee
Benjamin Phil Richardson
John Russell Thomas
James Albert Tolar, Jr.
Russell Riley Wiggins
Curtis Dean Wysner

Contributions Committee

James Albert Tolar, Jr.
Stephen Leonard Dunn
Curtis Dean Wysner

Conflict of Interest

Conflict of interest statements executed during the examination period were reviewed through 1999. The Company's Policy Statement on Business Ethics and Conflicts of Interest, in effect prior to 2001, required all directors, officers, and employees to execute conflict of interest statements annually. Effective July 18, 2001, the Company adopted a new "Principles of Business Conduct." Because the drafting and adoption of this new policy was in process, there were no conflict of interest statements executed for the year 2000.

The new policy does not require annual conflict of interest statements. It has been amended, February 4, 2003, to incorporate the provisions required by the Federal Sarbanes-Oxley Act. Under the policy, all new employees are required to confirm their compliance with the policy at their hiring. Confirmations are obtained from all existing employees when the policy undergoes significant revision, or whenever circumstances dictate that reconfirmation would be helpful in reinforcing the Company's "tone at the top" message.

FIDELITY BOND AND OTHER INSURANCE

The Company and its affiliates were covered by a fidelity bond through the Fidelity and Deposit Company of Maryland, at December 31, 2001. This policy provided for maximum coverage of \$2,000,000, which was in excess of the \$1,000,000 amount recommended by NAIC guidelines. Nevertheless, the policy covered twenty-two named insureds which were also affiliates of the Company. The application of the NAIC guidelines based on the assets and income of the Company alone is deemed not to provide an adequate amount of fidelity bond coverage for all the named insureds.

It was deemed to be beyond the scope of the examination to attempt to a consolidation of the assets and income of the subject affiliates in order to arrive at an adequate amount of fidelity bond. The Company has agreed to compute the required amount of fidelity bond, based on a consolidation, and to increase its coverage accordingly.

In addition to the above, the Company had the following coverages in effect at December 31, 2001, under policies issued directly to the Company or as a named insured under policies issued to an affiliate.

- Professional Liability
- Boiler and Machinery
- Commercial Property
- General Liability
- Inland Marine
- Commercial Umbrella
- Worker's Compensation and Employer's Liability
- Business Automobile Insurance

The coverages and limits of the Company's insurance were reviewed and were deemed to adequately protect the Company's interest.

EMPLOYEE AND AGENTS' WELFARE

The Company had no employees of its own during the examination period. Its operations are conducted by personnel employed by Alfa Mutual Insurance Company (AMI), under a management agreement that has been in effect since 1982. All employee and agents benefits for the Alfa Insurance Group are administered by AMI. Costs are allocated to the individual affiliates in accordance with the terms of the agreement.

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

Reinsurance Ceded

The Company ceded individual and group life business on a yearly renewable term (YRT) basis and on a co-insurance basis. At December 31, 2001, the Company had several contracts in effect. These contracts have effective dates ranging from January 1, 1972 to January 1, 2000. There did not appear to be any significant changes in any of the contracts during the examination period. The treaties were customary and standard type of contracts. Total reserve credits taken for ceded reinsurance amounted to \$3,788,351 and the total premiums ceded amounted to \$5,869,376. The total amount of insurance in force at 12/31/01 was \$1,977,821,759.

The Company's supplemental accidental death riders attached to direct written life insurance are ceded to Business Men's Assurance under a bulk reinsurance contract that first became effective January 1, 1973. Effective January 1, 1995, the accidental death coverage was extended up to \$500,000 on any one life. This contract provides for cancellation at the option of the reinsurer, so the Company has taken no reserve credit for this reinsurance.

The Company maintains life catastrophe coverage, against an occurrence, which might cause the deaths of three or more insureds, through the Special Pooled Risk Administrators, Inc. (SPRA). In limiting its liability to such occurrences, the Company must participate in the reimbursement to other insurers for their losses under similar catastrophic occurrences.

The Company writes a corporate owned life insurance plan for employees of AMI. The Company's retention on this business is limited to \$100,000 per risk, and the excess was ceded to North America Reassurance Company (NARC) under an automatic reinsurance contract. NARC's contract is limited to \$1,000,000 on any one life. Risks in excess of this amount may be submitted on a facultative basis and will be accepted by the reinsurer, within the guidelines specified in the contract.

All the aforesaid contracts for ceded reinsurance contain the usual insolvency clause, which provides for payments to a receiver or statutory in the event of the insolvency of the ceding company.

MARKET CONDUCT

Plan of Operation

At December 31, 2001, the Company's business was produced by 611 captive agents, operating from 519 service centers in Alabama (394), Georgia (63), and Mississippi

(62). Although the Company is licensed in 11 States, 91% of its business, in 2001, was written in Alabama, and another 8% was split almost equally between Georgia and Mississippi. See the report caption, "Territory," for a listings of the States in which the Company is licensed.

The Company did not disclose any plans for acquisitions or expansion in the future.

Policy Forms and Underwriting

The Company issued a general line of life insurance policies, including the following plan types: nonparticipating whole life; single premium; annual renewable term; level term; decreasing term; joint decreasing term; interest sensitive; and, universal life. Benefit riders offered included the following: accidental death; waiver of premium; waiver of monthly deduction; payor death or disability; spouse and children rider; guaranteed insurability; guaranteed renewability; and, accelerated death benefit. The Company also issued tax qualified annuities, a corporate owned universal life policy for employees of AMI, and a small volume of credit life and credit accident and health in connection with consumer loans made by an affiliated finance company.

As of December 31, 2001, the Company's non-medical limits for life insurance were \$99,000 through age 40, \$50,000 for ages 41 through 45, and none for ages 46 and above. Blood chemical profiles were required on all policies of more than \$99,000. The Company's maximum retention on one life was \$350,000.

All the Company's active policy forms were found to have been approved by the Alabama Department of Insurance.

Compliance With Agents Licensing Requirements

In order to verify compliance with agents licensing requirements of the Alabama Department of Insurance (ALDOI), a sample of the Company's commission payments was checked against the licensing records of the ALDOI. No discrepancies were found in the sample.

Advertising

The Company's advertising was planned and coordinated by Creative Consultants, Inc, a wholly-owned subsidiary of the Company. The cost of advertising was shared on a proportionate basis with other participating affiliates of the Company and the Alabama Farmers Federation. Various types of advertising were utilized, such as, signs, billboards, newspaper advertisements and spot advertisements on radio and television.

The Company also has a Web page (www.alfains.com), which displays the following links: Company's background, product lines, employment opportunities, agent access, how to locate an agent or the Farmers Federation and investing in Alfa stock.

The Company also maintained a cooperative advertising program with its agents. Company sponsored advertising materials were made available to the agents for their advertising purposes. Advertisement costs were shared on a 50/50 basis with the agents when the advertising was approved by the Company and paid invoices were submitted by the agent.

Claims Payments Practices

A random sample of open, closed and closed without payment claim files was reviewed in order to evaluate the Company's claims payment practices. Claims sampled were reviewed with regard to compliance with policy provisions, timeliness of payments, and adequacy of documentation. No noteworthy discrepancies were found within the sample of claims that was reviewed.

Complaints

The files of the Alabama Department of Insurance (ALDOI) were reviewed for complaints against the Company. The overall number of complaints during the examination period was deemed to be low in relation to the amount of the Company's business. However, the Company did not maintain a record of those complaints that were made directly to the Company and not reported to regulatory agencies.

The NAIC, Market Conduct Examiners Handbook stipulates that a complaint register should include consumer direct complaints as well as those complaints filed with regulatory authorities.

Privacy

The Company's policy is that non-public information involving underwriting, claims handling and fraud prevention is not shared with anyone outside the Company except for that sharing allowed by the exceptions in the Gramm-Leach-Bliley Act (GLBA). The Company does not share any personal information for purposes of marketing. The Company sends a "Notification of Information Practices" (Opt-Out Notice) with all renewal of personal lines policies. The Company appeared to be in compliance with the privacy requirements of Alabama Department of Insurance, *Regulation No. 122*.

ACCOUNTS AND RECORDS

Internal Accounting Records

The Company's internal controls and information systems are those of Alfa Mutual Insurance Company (AMI), since the Company is operated by AMI, in accordance with a "Management and Operating Agreement," among AMI and its affiliates. See "Holding Company and Affiliates," subsection, "Agreements with Affiliates" for details of the agreement. Said internal controls and information systems were reviewed during the concurrent examination of AMI. They appeared to be sufficient to safeguard Company assets and to generate adequate records of its business. The Company's accounting systems and documentation of its transactions were deemed to be adequate.

AMI's internal audit department reports to management, rather than to the Audit Committee of the Board of Directors. Most of the reports generated by internal audit were concerned with agency transactions and service center accounting. Internal audit reports were made available to the examiners, but were of limited use for examination purposes.

External Audit and Actuarial

The Company and its affiliates were audited, on a statutory basis, for each of the years under examination by the certified public accounting firm of KPMG, LLP. The audit reports and work papers of the external auditors were made available to the examiners, and have been utilized in the examination to the extent deemed appropriate.

The reserves were certified, as of December 31, 2001, by the Company's in-house actuary, Kenneth Leonard Nelson, MAAA, ASA.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the operations of the Company for the years under examination and financial condition at December 31, 2001, consist of the following:

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Period Ended December 31, 2001

ASSETS

	<u>Ledger</u> <u>Assets</u>	<u>Non-Admitted</u> <u>Assets</u>	<u>Admitted</u> <u>Assets</u>
Bonds	\$ 503,543,938		\$ 503,543,938
Preferred stocks	1,398,982	\$ 1,000	1,397,982
Common stocks	42,222,554		42,222,554
Mortgage loans on real estate (1st liens)	90,356		90,356
Policy loans	49,945,528		49,945,528
Cash	3,590,476		3,590,476
Short-term investments	94,429,764		94,429,764
Other invested assets	13,085,118		13,085,118
Receivable for securities	5,498,056		5,498,056
Federal income tax recoverable	4,005,839	4,005,839	
Life insurance premium and annuity considerations deferred and uncollected	1,068,471		1,068,471
A&H premiums due and deferred	273		273
Investment income due and accrued	8,194,582		8,194,582
Receivable from affiliates	397,671		397,671
Other assets non admitted	46,168	46,168	
Disallowed IMR balance	4,215,461	4,215,461	
Prepaid insurance premiums	204,182	204,182	
Software	1,156,334	1,156,334	
Agents' balances	10,563	10,563	
Total Assets	<u>\$ 733,104,316</u>	<u>\$ 9,639,547</u>	<u>\$ 723,464,769</u>

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (continued)

LIABILITIES SURPLUS AND OTHER FUNDS

Liabilities

Aggregate reserve for life policies and contracts (Note - 1)	\$ 527,845,478
Aggregate reserve for accident and health policies (Note - 2)	305,871
Liability for deposit-type contracts	15,214,321
Policy and contract claims - Life	2,359,620
Policy and contract claims - Accident and health	9,654
Policyholder dividends apportioned for payment	3,383,858
Premium and annuity considerations received in advance	502,486
Surrender values on canceled policies	149,282
Commissions to agents due or accrued	775,474
General expenses due or accrued	11,783,137
Taxes, licenses and fees due or accrued	245,223
Federal income taxes	61,512
Unearned investment income	19,596
Amounts with or retained by company as agent or trustee	421
Agents' credit balances	169
Asset valuation reserve	5,693,557
Payable to affiliates	2,495,491
Payable for securities	2,128,333
Amounts held for account of others	2,362,761
Reserve for deferred financial option income	83,700
Reserve for enhanced benefits on minimum deposit policies	1,725,000
Total liabilities	\$ 577,144,944

Surplus and Other Funds

Common capital stock	\$ 4,211,498
Gross paid in and contributed surplus	13,131,498
Columbia Housing limited partnership commitment	600,729
Unassigned funds (surplus) (Note - 3)	128,376,100
Total surplus and other funds	146,319,825
Total liabilities, surplus and other funds	\$ 723,464,769

STATEMENT OF INCOME

For the Periods Ended,

	<i>December</i> <i>31, 2001</i>	<i>December</i> <i>31, 2000</i>	<i>December</i> <i>31, 1999</i>	<i>December</i> <i>31, 1998</i>
<u>Income:</u>				
Premiums and annuity considerations	\$ 90,404,721	\$ 87,170,013	\$ 81,734,163	\$ 78,422,321
Deposit-type funds			781,973	870,420
Considerations for supplementary contracts:				
With life contingencies	50,633	16,236	16,236	
Without life contingencies and dividend accumulations			1,405,010	1,086,516
Net investment income	47,958,223	43,049,252	38,786,642	35,292,100
Amortization of interest maintenance reserve	(159,685)	(34,307)	20,632	(73,036)
Commissions and expense allowances on reinsurance ceded	129,892	25,733		
Total income	<u>\$138,383,784</u>	<u>\$130,226,927</u>	<u>\$122,744,656</u>	<u>\$115,598,321</u>
<u>Deductions:</u>				
Death benefits	\$ 21,234,522	\$ 17,112,384	\$ 15,112,750	\$ 15,392,009
Matured endowments	82,390	52,519	549,042	50,441
Annuity benefits	174,924	226,217	270,454	305,955
Disability benefits and benefits A&H policies	510,894	569,378	495,145	450,741
Surrender benefits and withdrawals for life contracts	15,068,081	16,685,418	14,978,528	13,286,016
Interest and adjustments on policy or contract funds	904,563	574,848	866,316	883,988
Payments on supplementary contracts:				
With life contingencies	19,000	14,942	31,533	14,772
Without life contingencies and dividend accumulations			987,190	912,494
Increase in aggregate reserves	51,783,084	49,392,780	49,881,335	51,035,335
Increase in liability for premium and other deposit funds			(459,234)	(270,576)
Increase in for supplementary contracts			431,713	298,968
Commissions on direct business			9,033,564	8,472,655
Commissions and expense allowances on reinsurance assumed	10,330,719	9,669,842		
General expenses	14,211,369	15,461,571	19,312,126	12,229,022
Taxes, licenses and fees, excluding federal income taxes	3,027,074	2,946,121	2,646,723	2,272,157
Change in reserve for enhanced benefits on minimum deposit policies	(275,000)		2,000,000	
Total deductions	<u>\$117,071,620</u>	<u>\$112,706,020</u>	<u>\$116,137,185</u>	<u>\$105,333,977</u>
Net gain from operations before dividends and federal income taxes	\$ 21,312,164	\$ 17,520,907	\$ 6,607,471	\$ 10,264,344
Dividends to policyholders	3,317,904	3,509,401	3,265,334	3,279,424
Federal income taxes	3,676,768	3,554,858	1,445,792	2,164,137
Net gain from operations	\$ 14,317,492	\$ 10,456,648	\$ 1,896,345	\$ 4,820,783
Net realized capital gains	5,769,616	7,485,912	1,596,735	1,111,244
Net income	<u>\$ 20,087,108</u>	<u>\$ 17,942,560</u>	<u>\$ 3,493,080</u>	<u>\$ 5,932,027</u>

RECONCILIATION OF CAPITAL OF SURPLUS

For the Periods Ended December 31,

	2001	2000	1999	1998
Capital and surplus as of January 1,	\$ 140,486,868	\$ 127,713,380	\$ 129,364,457	\$ 126,716,550
Net income	\$ 20,087,108	\$ 17,942,560	\$ 3,493,080	\$ 5,932,027
Change in net unrealized capital gains (losses)	(20,187,917)	(5,921,623)	(944,490)	5,130,822
Change in net deferred income tax	6,242,302			
Change in non-admitted assets	(6,591,240)	(1,978,911)	93,932	67,476
Change in asset valuation reserve	11,102,405	2,743,118	(1,431,645)	(552,583)
Cumulative effect of changes in accounting principles	(2,236,465)			
Dividends to stockholders	(3,727,175)		(3,605,042)	(6,868,953)
Direct credits to surplus		9,000	19,221	45,305
Unrealized gain (loss) on stock options	265,455	(744,373)	594,571	(71,902)
Prior year income tax	878,484	723,717	129,296	(1,034,285)
Change in capital and surplus for the year	\$ 5,832,957	\$ 12,773,488	\$ (1,651,077)	\$ 2,647,907
Capital and surplus as of December 31,	\$ 146,319,825	\$ 140,486,868	\$ 127,713,380	\$ 129,364,457

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Aggregate Reserve for Life Contracts

\$527,845,478

The amount of the captioned liability is the same as reported in the Company's 2001 Annual Statement. Examination differences were not material in amount. However, the following exception was noted by the actuarial examiner.

Regarding universal life and excess interest whole life reserves, when the Company calculated the related unearned premiums, it was assumed that all policies paid premiums on the first of the month. This assumption would lead to unearned premiums of zero at year-end, for monthly premium paying policies. However, based on calculations provided by the Company, it was evident that the premium paying dates were distributed throughout the month. Thus, the unearned premium calculated by the Company was low for certain policies, leading to a slight understatement of reserves for those policies. The impact on the aggregate excess interest whole life reserve was deemed to be very minor, as the vast majority of policy reserves would still be defaulting to the cash surrender floor.

The Company has agreed to continue to monitor the distribution of issue dates for new business, to assure sufficiency of reserve calculations based on existing methodology and assumptions.

It was also found that certain Accident and Health reserves were misclassified and reported as part of the aggregate reserve for life contracts. See "Note 2 – Aggregate Reserve for Accident and Health Contracts," which follows.

Note 2 – Aggregate Reserve for Accident and Health Contracts

\$305,871

The amount of the captioned liability is the same as reported in the Company's 2001 Annual Statement. However, the following exception was noted by the actuarial examiner.

Reserves for accidental death policies, plan AD0 (\$142,206) and plan AD1 (\$1,795), for a total of \$144,001 were found to have been included in the aggregate reserve for life contracts by the Company. These reserves are properly classified as accident and health reserves. The total amount of the misclassification is not material and there would be no impact on the Company's surplus from a reclassification. Therefore, no related change has been made in the financial statements of this report. The Company has agreed that, in the future, it will account for its AD0 and AD1 contracts as accident and health insurance, including but not limited to reserves, premiums, claims, etc.

Note 3 – Unassigned Funds (surplus)**\$128,376,100**

The amount of unassigned funds per examination is the same as reported in the Company's 2001 Annual Statement. Variances in account balances determined by the examination were deemed to be immaterial in the aggregate amount.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included review of the Company's Annual Statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items.

The Company reported a contingency for "Policy Administration Project Commitment," in the amount of \$5,976,940, as a special surplus write-in item in its 2001 Annual Statement. This amount represented the cost of a contract with SOLCORP, a Canadian software company, for installation and support for a new comprehensive life policy data base system. As of December 31, 2003, this project had been expanded to a total estimated cost of \$12,516,057, of which \$9,050,065 had been paid.

In the "Notes to the Financial Statements," 2001 Annual Statement, the Company reported total costs of legal proceedings in the ordinary course of its business, in the amount of \$10,127,500.

The Company's Chief Executive Officer and its Chief Financial Officer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2001.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2001 and up to the date of this report included: review of the Company's 2002 Annual Statement; review of cash disbursements through December 31, 2002; review of corporate records through October of 2003; and, inquiries of Company management. No subsequent events were identified that were deemed to have an impact on this examination; and, no subsequent events were identified that might potentially have a material impact on the Company's continued operations and/or financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

It appeared that the Company had complied with all recommendations made as a result of the examination report as of December 31, 1997, except for the recommendation relating to fidelity bond coverage. See "Comments and Recommendations, Fidelity Bond and Other Insurance," which follows for the current recommendation.

COMMENTS AND RECOMMENDATIONS

Holding Company and Affiliates – Agreements with Affiliates – Page 7

It is recommended that the Company, and the affiliates with which it files consolidated federal income tax returns, develop a written tax allocation agreement, which specifies the terms for the settlement of intercompany balances, in compliance with SSAP No. 10, Section 12 c.

Management and Control – Conflict of Interest – Page 12

The Company's conflict of interest policy was changed during the examination period, and subsequently amended to add the requirements of the Federal Sarbanes-Oxley Act. Annual reporting requirements have been eliminated under the new policy.

Fidelity Bond and Other Insurance – Page 12

The Company's fidelity bond coverage was found to be inadequate to cover the Company and twenty-two affiliates that are named insured on the policy. The Company has agreed to compute the required amount of coverage based on a consolidation of the assets and income of all the named insureds, and increase its coverage accordingly.

It is noted that the examination of the Company as of December 31, 1997 also found the amount of the Company's fidelity bond to be inadequate.

Market Conduct – Complaints – Page 16

It is recommended that the Company maintain a complaints register that includes all complaints received, rather than just those that are filed with regulatory agencies.

Aggregate Reserve for Life Contracts – Page 23

It is recommended that the methodology used by the Company of assuming first of the month issue dates in determining excess interest whole life reserves be monitored and tested by the Company in the future, to ensure the continued reasonableness of this assumption.

Aggregate Reserve for Accident and Health Contracts – Page 23

It is recommended that the Company properly classify its reserves for accidental death policies as accident and health reserves rather than life reserves. In addition, all accounting entries for the accidental death policies, including premiums claims, expenses, etc. should be classified as accident and health.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by representatives of **Alfa Life Insurance Corporation** during this examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

Examination findings indicated that the Company was in sound financial condition as of December 31, 2001.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Palmer W. Nelson, AFE, Douglas T. Brown, Thomas W. Salo, Theophilos C. Goodin, Deanne Brown, Larae Mason and Bobby Mckinnon, examiners; Donald G. Yates, FSA, MAAA, actuarial consultant

Respectfully submitted,
February 20, 2004



Rex H. Newborn, CFE
Examiner-in-Charge
Alabama Department of Insurance

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION**

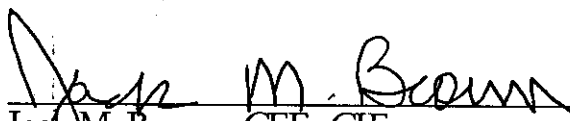
STATE OF ALABAMA

COUNTY OF MONTGOMERY

Jack M. Brown, being duly sworn, states as follows:

1. I have authority to represent the State of Alabama in the examination of Alfa Life Insurance Corporation, Montgomery, Alabama.
2. The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination workpapers and examination report, and the December 31, 2001 examination of Alfa Life Insurance Corporation, Montgomery, Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama Department of Insurance, and the National Association of Insurance Commissioners.

The affiant says nothing further.



Jack M. Brown, CFE, CIE
Assistant Chief Examiner, and Insurance Examinations Supervisor
State of Alabama, Department of Insurance

Subscribed and sworn before me by Jack M. Brown, on this 16th day of July, 2004.

(SEAL)



(Notary Public)

My commission expires

(Date)

11/2/05